1 August 2024

Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2001

Project Reference code: ERC0383

Dear Ms Collyer,

Flexibility in the allocation of interconnector costs

Energy Networks Australia (**ENA**) welcomes the opportunity to make this submission in response to the Commission's draft determination on the Rule change request to introduce flexibility in the allocation of interconnector costs.[1]

ENA represents Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia. Our electricity transmission members are focused on delivering the timely and efficient investment in the transmission infrastructure that is urgently needed to enable this transition to be achieved at the lowest cost to electricity consumers.

As noted in ENA's submission to the Commission's earlier consultation paper, ENA considers it essential that the Rule change proceeds so that interconnector projects that are economically justified are supported by revenue recovery arrangements that are fit for purpose. ENA therefore supports the proposed Rule change.

ENA also agrees with the key elements of the Commission's approach in drafting the Rule to provide more flexibility in interconnector pricing. Specifically, ENA welcomes the Commission's position that:

- The role of the Australian Energy Regulator (**AER**) should be to verify that each TNSP's proposed pricing methodology reflects the terms of the jurisdictional agreement, rather than reviewing the merits and basis of the agreement reached between jurisdictional Governments.
- It is appropriate to extend the role of the Coordinating Network Service Provider (**CNSP**) to include the recovery of the annual revenue requirement for an interconnector asset in accordance with a jurisdictional agreement.
- The Modified Load Export Charge (**MLEC**) provisions may be deactivated in relation to the interconnector assets by setting the value of those assets to zero

---

[1] AEMC, Draft Determination, National Electricity Amendment (Providing flexibility in the allocation of interconnector costs) Rule 2024, 20 June 2024.

Energy Networks Australia www.energynetworks.com.au
Unit 5, Level 12, 385 Bourke Street Melbourne VIC 3000
P: +61 3 9103 0400 E: info@energynetworks.com.au
Energy Networks Association T/A Energy Networks Australia
ABN: 75 106 735 406

for the purposes of the calculation. This approach preserves the agreed allocation of interconnector costs between the regions.

In relation to the draft Rule, ENA has identified two issues where relatively modest changes would be desirable, as explained below:

Definition of a qualifying interconnector

The draft Rule defines a 'qualifying interconnector' as an interconnector that satisfies at least one of the following criteria:

(1) as at 12 September 2024, the network services provided by means of the interconnector were market network services;

(2) as at 12 September 2024, construction of the interconnector had not commenced; or

(3) after 12 September 2024, construction commenced on a project to materially upgrade the rated power transfer capability of the interconnector and that material upgrade was the subject of an actionable ISP project.

ENA supports the intention of the Draft Rule which is that existing interconnectors (apart from Market Network Service Providers cannot be subject to the new Rule, which is reflected in the above conditions. In relation to the third condition, however, it is unclear whether the intention is that only the upgraded incremental capacity of the interconnector may be subject to the new Rule (as opposed to the entire interconnector capacity). For example, the question is whether an existing interconnector, such as Murraylink, would classify as a qualifying interconnector if it were subject to a material upgrade.

In accordance with the principle that the new Rule should not apply to existing interconnectors that provide prescribed transmission services, ENA's preference is that only the upgraded capacity may be subject to the new Rule.

Application of the MLEC

ENA supports the Rule allowing the jurisdictions to specify that the interconnector assets should be set to zero for the purpose of calculating the MLEC. As explained in the Commission's draft determination, this change allows the agreed cost allocation between the jurisdictions to be preserved. While ENA supports setting specified interconnector assets to zero for the purpose of the MLEC, we do not support the extension of this provision to existing assets as currently proposed by the Commission.

ENA notes that the Commission's intention is to reduce the impact of the interconnector capacity by adjusting the cost allocation of existing assets between jurisdictions.[2] However, as the MLEC already applies to these assets, these network

---

[2] AEMC, Draft Determination, National Electricity Amendment (Providing flexibility in the allocation of interconnector costs) Rule 2024, 20 June 2024, page 30.

costs are currently shared in some fashion between the TNSP that owns and operates those assets and its neighbouring TNSPs (possibly including TNSPs that are not party to the cost allocation agreement). Therefore, setting the value of these existing assets to zero for the purposes of the MLEC would change the existing cost allocation, rather than preserve it.

In light of the distortions that are likely to arise from setting existing assets to zero for the purposes of the MLEC, ENA strongly recommends a change to the Rule drafting so that the adjustment to the MLEC is limited only to the interconnector assets specified in the agreement. This would be a relatively minor change, but one that would ensure that the MLEC continues to apply as intended by allocating asset costs (with the exception of the excluded interconnector assets) between neighbouring TNSPs.

ENA looks forward to working with the Commission as it works towards the final determination for this important Rule change. In the meantime, if you would like to discuss this submission, please contact Verity Watson in the first instance at the following email address: vwatson@energynetworks.com.au.

Yours sincerely

D vd Berg

Dominique van den Berg,
Chief Executive Officer